

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 XMB-02 SSO-00 NSCE-00 INRE-00

USIE-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03

H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01

AID-05 CIEP-01 SS-15 STR-04 ITC-01 TRSE-00 PRS-01

SP-02 OMB-01 EUR-12 IO-13 /107 W

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O R 291844Z JUL 76

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC IMMEDIATE 1748

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SAN SALVADOR 3462

E.O. 11652: N/A

TAGS: EAGR, ETRD, BR, ES

SUBJECT: BRASILIAN PURCHASE OF SALVADORAN COFFEE

REF: STATE 184181

1. EMBOFF MADE PRESENTATION JULY 28 ALONG LINES REFTTEL TO DIRECTOR OF SALVADORAN COFFEE COMPANY FALL CACERES. FALLA CACERES STATED THAT BRASILIAN SALE WAS STRICTLY COMMERCIAL IN NATURE AND ARGUED THAT EL SALVADOR HAS AND WILL CONTINUE TO PROVIDE LARGE QUANTITIES OF COFFEE TO TRADITIONAL MARKETS AT REASONABLE PRICES, GIVEN MARKET.

2. FALLA CACERES SAID THAT SALVADORANS HAVE BEEN DICKERING FOR SOME MONTHS WITH PETRO BRAS COMERCIO INTERNACIONAL, S.A. ON SALE OF MILD COFFEE FOR USE BY BRASILIAN SOLUBLE COFFEE INDUSTRY. BRASILIANS HAD EXPRESSED INTEREST IN PURCHASING SALVADORAN COFFEE AS EARLY AS NOVEMBER OF 1975 BUT TWO LIMITED OFFICIAL USE

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SIDES UNABLE TO COME TO TERMS. NEGOTIATIONS BEGAN IN EARNEST

THIS SPRING BUT WERE LONG AND DIFFICULT BECAUSE OF DISAGREEMENT OVER PRICE. BRASILIAN WANTED TO SET A FIXED PRICE FOR WHOLE QUANTITY (ON ORDER OF 560,000 SACKS) WHICH SALVADORANS WERE UNWILLING TO ACCEPT GIVEN VOLITILITY OF INTERNATIONAL MARKET. AGREEMENT WAS FINALLY REACHED ON PRICE FORMULA AS FOLLOWS. PRICE OF EACH INDIVIDUAL SHIPMENT WILL BE SET BY TAKING AVERAGE OF INTERNATIONAL PRICE FOR PERIOD TEN DAYS BEFORE AND TEN DAYS AFTER DATE OF SHIPMENT. FIRST SHIPMENT WILL BE 160,000 SACKS WHICH COFFEE COMPANY NOW HAS STORED IN HAMBURG. ACCORDING TO FALLA CACERES THIS COFFEE IS FROM THE 72/73 CROP. THIS WILL MEET IMMEDIATE BRASILIAN NEEDS. SUBSEQUENT SHIPMENTS WILL BE FROM STOCKS IN EL SALVADOR. A SMALL QUANTITY WILL BE SENT IN AUGUST AND THE REMAINDER OVER PERIOD OF APPROXIMATELY SIX MONTHS AFTER OCTOBER 1.

3. SALE WAS ANNOUNCED IN SALVADORAN PRESS JULY 29. IN INTERVIEW WITH LOCAL JOURNALISTS, FALLA CACERES STATED THAT THIS WAS NOT THE FIRST TIME BRASIL HAD PURCHASED SALVADORAN COFFEE, NOTING THAT 300,000 BAGS HAD BEEN SOLD FOUR YEARS AGO. HE STATED THAT THE TOTAL VALUE OF THE SALE WOULD BE ON THE ORDER OF \$100 MILLION.

4. FALLA CACERES SAID HE RECOGNIZED AND REGRETTEED THAT TIMING OF DEAL WAS MOST UNFORTUNATE. HE SAID IF HE HAD REALIZED THAT HEARINGS WERE TAKING PLACE HE WOULD HAVE BEEN INCLINED TO HOLD OFF CONCLUSION OF NEGOTIATIONS FOR A FEW WEEKS. HE INSISTED THERE WAS NO INTENTION TO WITHHOLD SUPPLIES FROM MARKET OR USE ANNOUNCEMENT TO INFLUENCE WORLD PRICE. IN FACT, HE SAID HE WAS ANGERED BY BRASILIAN ANNOUNCEMENT, WHICH WAS MADE BEFORE DEAL HAD BEEN FULLY CONCLUDED.

5. FALLA CACERES DEFENDED EL SALVADOR'S BEHAVIOR IN CURRENT MARKET SITUATION AND SAID EVERY EFFORT HAD BEEN MADE TO SUPPLY TRADITIONAL MARKETS AT REASONABLE PRICES, GIVEN PREVAILING SITUATION. HE PROVIDED FIGURES SHOWING THAT, FOR COFFEE YEAR 75/76 TO JULY 19, EL SALVADOR HAD SOLD 2.6 MILLION BAGS (60 KILOS) OF WHICH 2.0 MILLION HAVE ALREADY BEEN EXPORTED. THE AVERAGE PRICE DURING SAME PERIOD OF COFFEE SOLD IS \$107 PER QUINTAL AND OF COFFEE ALREADY EXPORTED \$97.37 PER QUINTAL. EXPORT REGISTERS ARE OPEN FOR ALL OF 75/76 CROP. COFFEE COMPANY LIMITED OFFICIAL USE

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IS MAINTAINING SIZEABLE STOCKS, ACCUMULATED BEFORE CONCLUSION OF NEW COFFEE AGREEMENT, WHICH IT PLANS TO SHIP DURING PERIOD OCTOBER-DECEMBER, 1976. 76/77 CROP MAY BE SOLD BEGINNING JANUARY 1977. ACCORDING TO FALLA CACERES, SHIPMENTS OF COFFEE UNDER BRASILIAN DEAL WILL BE SPACED SO AS NOT TO INTERFERE WITH SHIPMENTS TO TRADITIONAL CUSTOMERS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COFFEE, FOREIGN MARKETS, SALES, IMPORT PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 29 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANSa03462
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760293-0863
From: SAN SALVADOR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976079/aaaaahjm.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 184181
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 27 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 APR 2004 by ShawDG>; APPROVED <25 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BRASILIAN PURCHASE OF SALVADORAN COFFEE
TAGS: EAGR, ETRD, BR, ES, (CACERES, FALLA)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006